Weekly Review<?xml:namespace prefix = o ns = "urn:schemas-microsoft-com:office:office" />

Gold and silver prices finished largely unchanged, following four weeks of impressive gains. Gold ended the week ahead by $2 while silver fell 10 cents, both insignificant in percentage terms. Gold did end the week at a new six month high. A subscriber noted to me that the ratio between the two is more correctly termed the Silver/Gold Ratio, as it measures how many ounces of silver you can buy with one ounce of gold. The SGR widened slightly to just below 51.5 to 1. Just to be clear, I expect over time the number of ounces of silver that can be purchased by selling one ounce of gold to shrink. Someday it will probably be a good deal to be able to buy 20 or 30 ounces of silver for one ounce of gold, but since you can buy more than 50 ounces of silver today, it is a much better deal presently. That's long term; short term depends on factors I'll discuss in a moment.

Although gold and silver prices stabilized this week, that doesn't mean that under the surface things are stable. In fact, the opposite of stable is closer to the truth, at least in COT terms. I guess what I'm saying is that one shouldn't look first to price changes in the short term to try to divine what's really going on. I admit to not being a chartist (as many subscribers are), so please don't interpret this as a putdown of technical analysis as that is not my intent. For short term trading, relying on technical analysis can be profitable. My point is more that price change (or lack thereof) can be caused by many different factors. A lack of big change in price in a week doesn't mean that will continue indefinitely. It still looks like the ingredients for great price volatility are in place. We need look no further than yesterday's silver price action to get a hint of that.

Early on Friday, both gold and silver were trading at new multi-month price highs, before silver was suddenly smashed for over 80 cents (2%+) within a few minutes, courtesy of High Frequency Trading (HFT). This should serve to remind everyone that neither HFT nor the COMEX silver manipulation has gone away, despite the impressive rally. Coincidently, there was a senate hearing on HFT in stocks this week that made the news. While I admit that I don't like much of anything about HFT, there is a big difference between HFT in stocks and HFT in COMEX silver. It seems to me that everyone is pretty much on the same page when it comes to HFT and the stock market in that no one wants the stock market to crash. In COMEX silver, the whole purpose for HFT is to cause the price to crash. Whereas all the regulators, including the CFTC, are on guard against a stock market HFT crash (I hope that works), the agency refuses to address the repeated HFT crashes in COMEX silver. I get the feeling that the crooked COMEX HFT operators know that the CFTC won't do squat to stop them. If I'm correct that may mean continued HFT takedowns in an attempt to truly smash the price of silver. In that case only a physical shortage (which is coming) offers a remedy to HFT-induced takedowns.

Continued hints at an impending silver shortage reappeared in earnest in the movement of metal in and out of the COMEX-approved warehouses this week. After the previous week's relatively subdued movement, more than 3 million oz were moved into and out from COMEX silver warehouses. The total number of COMEX inventories fell 1.7 million oz to just under 140 million oz. I still contend that this frantic turnover indicates tightness in the wholesale silver market.

The big silver ETF, SLV, did finally get a good chunk of the metal that I claimed was "owed" to the Trust, as almost 5 million oz were deposited this week. This is good in that it is how it should be; or almost as it should be. Recently, I described how the mechanical effect that net new buying of SLV shares should automatically result in additional metal being deposited into the Trust (unless short-circuited by short selling of shares). It was the obvious net new buying of SLV shares on the rally that caused me to conclude that metal should be deposited. While I'm glad the metal was finally deposited and I don't want to appear to nitpick every darn thing, a strict reading of the prospectus indicates that metal must be deposited the very same day the net buying of the shares occurs. Any objective reading as to when the share buying took place would pinpoint a time before the metal actually came in, by a week or more. Although this delay is not in accord with the prospectus, I am not really complaining. In the past, I had written that I understood that sometimes the logistics of securing and transporting the metal would violate the terms in the prospectus requiring a same day deposit. I still feel that way. Still, it is clear to me that these recent deposits into SLV should have occurred earlier and that raises a different point. Quite simply, this delay in SLV deposits also points to a tightness in wholesale silver, as the most plausible reason for delay is due to the lack of easy availability of supply. I'll also report on the new short report on SLV shares which should be published before the mid-week update.

Sales of Silver Eagles from the US Mint appear headed for a robust, if somewhat average month in September. Average only because Silver Eagle sales have been strong for years. Gold Eagle sales picked up a bit for the month so far, but the standout feature is still that 2012 will likely record more Silver Eagle sales for the year relative to Gold Eagles than any other in the 26 year history of the program.

I can't call the changes in this week's COT Report unexpected, as the commercials continued to add to net short position in both gold and silver on higher prices, as speculators bought. You'll remember that the big day of this reporting week was the strong price and volume move on the Thursday of the Fed announcement on QE3. The cumulative addition to the total commercial net short position over the past month puts the COT structure in deeper negative territory (assuming the typical past result).

In gold, the total commercial net short position increased by 12,500 contracts to

249,600 contracts. This is the largest short position since the all-time gold price highs of last August. By category, the big 4 accounted for all the additional commercial short selling and then some, in their sale of more than 16,500 short contracts. The gold raptors (the smaller commercials apart from the big 8) actually bought back almost 3000 of their short contracts on the higher prices and, apparently, at a loss. I had been thinking that the gold raptors were over-exposed to the short side and this buyback would seem to confirm that. My main takeaway on the gold COTs is that the big 4 came to the rescue of the gold raptors by aggressively shorting gold these past few weeks. I remember writing a little ways back how the gold COTs looked different at that time in that the big 4 were unusually light on the short side and well-positioned for a gold price rally.

Well, we got that rally and now the big 4 are selling short like crazy. It's not so much that I think the big 4 really care about saving the gold raptors, but more that the big 4 are multi-tasking in laying on big additional shorts to cap the price and for speculative profit reasons which have the additional effect of bailing out the raptors. I look at the big 4 in gold, which probably includes JPMorgan, as the ultimate enforcers and they are protecting their turf and overall control of the market. Since I don't see (but allow for being wrong) evidence of a physical gold tightness as strong as I see in silver, I am less confident that physical gold tightness could potentially overwhelm the paper commercial short sellers in gold. I would like very much to be wrong as I can't possibly foresee any type of a physical gold shortage without a commensurate super silver physical shortage.

In silver, the total commercial net short position increased by 3200 contracts, to 50,500 contracts. You have to go back to April 2011 to find a larger total commercial net short position in silver. As has been the case recently, the big 4 (read JPMorgan) accounted for most of the selling, in adding 2500 new short contracts. The big 4's short position is 46,113 contracts, the largest concentrated short position since December 2010. The raptors sold 500 more of their longs, reducing their net long position to 4600 contracts. As an aside, the raptors largely eliminated the bulk of a big net long position by the time silver hit $31 and have been bystanders since.

I would calculate JPMorgan's concentrated net short position to now be 29,500 contracts (147.5 million oz), up from 14,000 contracts in July. On the rally, JPMorgan has largely been the sole new silver short seller. This raises the allegations that JPMorgan is the prime silver manipulator to disturbing levels. If JPMorgan were not short nearly 150 million oz of the total commercial net short position of 250 million oz, then someone else would need to replace them. Since that could only occur at sharply higher prices, that means that JPMorgan is clearly manipulating the price of silver by the sheer mass of their concentrated position. In addition, since JPMorgan has been, in effect, the sole commercial short seller on this rally, it is also clear that silver prices would have risen much higher had not JPM sold short so aggressively. Rarely have there ever been such multiple and documentable proofs of manipulation as are contained in recent COT data. They say you can lead a horse to water but can't force him to drink. Likewise, you can present all the documentation to the regulators proving that JPMorgan is manipulating the price of silver (with their own data), but you can't force them to regulate.

In this week's COTs, there were some unusual changes in some categories of the commercials in silver and gold in the disaggregated report. It looks like some type of compilation error or a change in commercial category classification. Since it had no effect on the data that count the most, namely, the net positions of the big 4, I'm not paying it much mind. The issue in silver is always what the heck JPMorgan is up to. As I've maintained for quite some time, what JPMorgan does or doesn't do is the driving feature in silver. JPMorgan's percentage holding of the true net COMEX silver futures market is downright grotesque. When you subtract all spreads in the disaggregated report and calculate JPM's 29,500 net short contract position to the 94,202 net contracts of true total open interest, JPMorgan's share in now over 31% of the entire market. Have they and the regulators lost their minds? How could that not be manipulative in every meaning of the word? The CFTC is said to be about to announce results of the 4 year old silver investigation just as the clearest evidence possible of a manipulation has come into focus. What JPMorgan has done over the past month or so is more reason to investigate than any before it.

And, yes, that means JPM's short silver position is almost 6 times the level of what the Commission proposed for position limits in silver on an all months combined basis. (The enactment of position limits on Oct 12, is for limits in the spot month, which was never a problem to begin with and why the securities industry never sued to stop it).

I still think that JPMorgan is trapped and has no choice but to try and dig the hole deeper. What they are doing in silver is as crooked as is possible and no matter how powerless or complicit the CFTC may appear, the agency can't be as incompetent as to not see it. How this turns out short term is anyone's guess, but it has created a danger in the silver market both for big ups and downs in price. That's the basic problem with an unusually large concentrated position; it can't be resolved quietly. All I know is that I never thought I would ever in my life get to openly accuse an important financial institution like JPMorgan of being crooked and get no response (be careful of what you lament).

Having been preoccupied with silver for decades, I'd like to pass along some broader observations on what has changed in silver over time. Admittedly, this must be somewhat personal and therefore possibly unscientific, but not necessarily invalid. At the very least, however, my observations are sincere. If accurate, what I see that has changed is constructive to the future price.

The most obvious change has been the price itself. It seems, in some ways that the four or five dollar mark in silver was here just a short time ago, although the calendar says it's been a decade. I think that's because we were at that price level for a full decade (or two) before that. Still, it was only a little less than 4 years ago that silver dipped below $9, which is quite a change from prices over these past couple of years. Not many investments or assets have appreciated as much as silver has over the past five or ten years. After expecting such price performance for way too long, I can say I am greatly relieved, among other strong feelings.

While anyone can see that the price of silver has changed from years past, the biggest change may have gone almost unnoticed. I'm speaking of the general public sentiment in silver currently versus what that sentiment had been in the past. Back in the old days, say before 2000 to 2005, silver was mostly viewed unfavorably, if thought of at all, except by a few. Back in the mid-1980's when I started to focus on silver closely, the sentiment was downright hostile and silver was viewed to be in s vast and permanent oversupply, in line with its putrid investment performance at that time. Today, I see more being written about silver and in more favorable terms than ever before. Talk of surplus has disappeared. To be sure, this is seen more in the Internet-related world than in the world of main stream media, but the change seems profound to me. This is particularly true among gold investors, who in years past generally had never even considered silver as an investment. Now, more gold commentators give a favorable nod to silver than ever before. It does take time to alter widespread collective sentiment feelings that have prevailed for decades, but that change in silver sentiment has occurred.

I think silver's phenomenal investment return has had much to do with the growing favorable sentiment. This is as would be expected, but I don't think the investment return is the sole driver to favorable silver sentiment. I think the actual silver story is becoming better known and as that continues those who learn the story will invariably become favorably inclined towards silver. What is the actual silver story? Well, in addition to its superb fundamental supply/demand circumstances and because silver is both an industrial material and investment asset, the actual silver story revolves around the allegations of a downward price manipulation. Simply put, the growing awareness of a massively concentrated short position on the COMEX, with JPMorgan as the single largest short seller, is responsible for the radical change in public sentiment on silver. Especially over the past year or so, I have been taken back by the all the different Internet commentary about JPMorgan manipulating the price of silver. Even though this commentary is now near-universal, it remains unprecedented and underappreciated that a collective accusatory finger is being pointed at such a high profile mega-bank. I can't think of a similar previous example of such a circumstance.

Compounding this unprecedented circumstance is the lack of a strident defense against the allegations of silver manipulation from either JPMorgan or the regulators, the CFTC and the CME Group. Please remember, market manipulation is the most serious market crime possible. JPMorgan's only known response to all the allegations was a brief TV appearance six months ago in which a spokeswoman attempted to dismiss allegations from the blogosphere by suggesting the bank was hedging for clients. Hedging? Where under commodity law is manipulation excused by hedging or market-making? Since then, the biggest and toughest bank of all has been silent on allegations of criminality, even after their board of directors was notified. The CFTC keeps on supposedly investigating, smiling for the cameras and saying soon, while the manipulation becomes more blatant. The CME is too busy to attend to its most important regulatory responsibility because it is pre-occupied with how to create more unnecessary and phony electronic trading schemes to collect trading fees and mo' money.

But it is the inability of those most responsible to forcefully respond to allegations of a silver manipulation that also represents a big change. In the past, the CFTC regularly published open public letters explaining there was no silver manipulation. It seems to me that as the allegations of concentration and manipulation by JPMorgan became clearer, the CFTC has become hesitant in publishing any more denials. Maybe I'm reading it all wrong and the Commission will openly demonstrate why there is nothing wrong with JPMorgan holding more than 30% of the entire COMEX net open interest, both in 2008 and today. But if they could, then they should have done so a lot sooner than now. I don't think that JPMorgan, the CFTC or the CME can debate this issue openly. And it is precisely that continued silence which will sway more to accept the actual silver story.

I believe there is a critical point, which we are close to, when enough people come to know and act on the actual silver story that it doesn't matter what JPM, the CFTC or the CME do or say. I'd define that point in terms of a silver shortage, brought about by enough outside investors doing something as simple and practical as buying silver. Isn't that what you and I have done? Then why wouldn't others do so as well?

The most important change is the change to come. I would define that change as the move by the super big investors into silver. When enough new pension and hedge and other institutional funds take the time to learn the actual silver story and invest accordingly, the silver rig jig will be up. Most amazing of all is that this hasn't occurred yet. After all, these mega investors are hungry and on the prowl for sound investment ideas in a world never providing enough new good ideas. Let's face it □ these super sharp investors have missed the silver boat to date. It is highly unlikely that they will miss it forever. In my experience, talk precedes action. By that I mean there is usually some time spent studying and learning a new investment idea before strong actual investment occurs. I see the literal explosion of Internet talk of JPMorgan and the silver manipulation over the past year or so as the precursor for substantial silver investment flows. Up until now, it's been mostly talk that has not yet led to big investor silver demand. But it would be a mistake to assume that all the talk won't result in greater awareness of the actual silver story. Perhaps we can't do much to overpower JPMorgan at this point besides make the allegations; but at some point, enough sharp hedge funds will see the great vulnerability that JPMorgan has placed itself in and become excited about taking JPM on. This is particularly true when the hedge funds learn how simple it would be to beat JPM by just buying metal. That's how it works.

I still can't tell you how this will be resolved short term. JPMorgan has placed the silver market and every participant, including themselves, in danger because of their unconscionably large concentrated short position. JPM will be looking to rig the price lower, along with the other commercials because that is in their collective self interest. I don't know if they will succeed or if the short position will blow up in their face. I'm not going to chance missing the major silver move up and will ride it out. And keep trying to spread the actual silver story.

Ted Butler

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Silver – $34.60

Gold – $1775